

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

BNC National Bank (Holding company: BNCCORP, INC.)

Point of Contact:	Timothy Franz	RSSD: (For Bank Holding Companies)	1248162
UST Sequence Number:	483	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	200,930,000	FDIC Certificate Number: (For Depository Institutions)	57197
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	January 16, 2009	City:	Bismarck
Date Repaid ¹ :	N/A	State:	North Dakota

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

In early 2009 we increased lending knowing capital would be fortified by TARP proceeds. We curtailed lending as 2009 progressed as borrowers incurred financial challenges and reports from peers and advisors warned regulatory scrutiny would be extraordinary.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

We are a bank primarily focused on serving small to midsize businesses and accordingly we made small business loans. We also have a mortgage banking division and in this part of our business we made conforming residential mortgage loans.

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☒ **Increase securities purchased (ABS, MBS, etc.).**

We also invested in non-agency mortgage backed securities. We shifted toward these assets in 2009 because they offered attractive returns. Our concerns about lending (see comments above) also motivated a shift to investment securities.

☐ **Make other investments.**

☒ **Increase reserves for non-performing assets.**

In 2009 we recorded large provisions for loan and OREO (NPA's) losses. Because our previously strong capital position was fortified by TARP proceeds, we were able to aggressively address non-performing loans and potentially problematic assets.

☐ **Reduce borrowings.**

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☒ **Increase charge-offs.**

Our charge-offs were elevated in 2010 after increased the allowance for credit losses significantly in 2009.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

We were able to avoid a significant reduction in regulatory capital at the bank despite recording a large provision for credit losses which resulted in losses. Our capital levels at the end of 2009 were essentially the same as the beginning of the year (pre-TARP investment). In April of 2010 we became aware that a loan servicer had defrauded our institution. Since then, our insurance carriers have contested our claim of coverage and we remain in litigation to collect our insurance proceeds. Although our capital was diminished due to the fraud, the TARP proceeds have allowed us to develop alternative remedies to improve our capital while we litigate with the insurance carriers. We have been able to develop these strategies in a reasonably stable fashion because our capital was enhanced by the TARP proceeds.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.